

July 8, 2016

The Honorable Mary Jo White  
Chair  
U.S. Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549-9303

Re: Proposed Rule 30e-3's Vital Importance to Fund Shareholders

Dear Chair White:

On behalf of the members of the Investment Company Institute,<sup>1</sup> I am writing to urge the Securities and Exchange Commission to move forward without delay to provide mutual funds<sup>2</sup> with an important new online option for delivering shareholder reports.<sup>3</sup> The current regime is untenable—printing and mailing shareholder reports is an increasingly outdated, expensive delivery default that fund shareholders pay for as a fund expense. I respectfully request an urgent meeting with you to discuss the following four reasons why the Commission should move forward with adopting proposed rule 30e-3.

- First, the Commission's proposal aligns much more effectively with shareholder preferences for information access than the current outdated system.
- Second, the proposed approach would create direct and very material cost savings for fund shareholders.

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<sup>1</sup> The Investment Company Institute (ICI) is a leading global association of regulated funds, including mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. ICI's U.S. fund members manage total assets of \$17.8 trillion and serve more than 90 million U.S. shareholders.

<sup>2</sup> We use "mutual fund" and "fund" interchangeably to refer to mutual funds throughout this letter. Proposed rule 30e-3 also would apply to, and benefit shareholders of, ETFs and closed-end funds.

<sup>3</sup> See Letter from David W. Blass, General Counsel, Investment Company Institute, to Brent J. Fields, Secretary, U.S. Securities and Exchange Commission, dated August 11, 2015, available at <http://www.sec.gov/comments/s7-08-15/s70815-315.pdf>. ICI's letter included a detailed analysis of potential cost savings under proposed rule 30e-3.

- Third, the proposed move to an online delivery option reflects a strong consensus that practical actions are necessary to address climate change; it would have an immediate, positive impact on the environment.
- Fourth, the proposal strikes the right balance in preserving investor choice for those who prefer paper reports.

I explain each of these reasons in further detail below.

First, the Commission's proposal aligns much more effectively with shareholder preferences for information access than the current outdated system. The move to an online delivery default aligns with how most Americans—and nearly all fund shareholders—access financial information: online. Across many demographics, fund shareholders are more Internet-ready than the population at large. Research shows that about 85 percent of Americans have access to the Internet.<sup>4</sup> For mutual fund shareholders, the figure exceeds 90 percent, with more and more of them using the Internet to manage their finances.<sup>5</sup> By stark contrast, fewer than half of mutual fund shareholders still review some printed materials for information about their fund investments, and over two-thirds of these individuals likewise access online materials to gather information on their fund investments.<sup>6</sup> And more than half of these fund owners also consulted a financial professional in addition to print materials. As it has considered allowing greater use of the Internet to provide required disclosure, the Commission has sought to pace its proposals with an eye toward the investing public's level of Internet access. These data show that the time for this change has come.

In a remarkably short period of time, the Internet has transformed and accelerated our ability to gather and distribute information. This, in turn, is giving us an historic opportunity—the chance to better serve investors' information needs while, at the same time, reducing their costs. For growing millions of Americans, the Internet is not just a news supplement. Increasingly, it is the first place that investors turn for information.

Funds have long recognized that the Internet opens the door to better ways of serving investors' information needs. Their websites feature extensive educational material, including information about the fundamentals of investing, saving for college, estate planning, tax and retirement planning. Many have developed extensively-used interactive online calculators and other tools. In a digital environment,

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<sup>4</sup> See *Americans' Internet Access: 2000-2015*, Pew Research Center, available at [http://www.pewinternet.org/files/2015/06/2015-06-26\\_internet-usage-across-demographics-discover\\_FINAL.pdf](http://www.pewinternet.org/files/2015/06/2015-06-26_internet-usage-across-demographics-discover_FINAL.pdf), at p. 2.

<sup>5</sup> See Burham, Kimberly, Michael Bogdan & Daniel Schrass, *Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2015*, ICI Research Perspective 21, no. 5 (November 2015), available at [www.ici.org/pdf/per21-05.pdf](http://www.ici.org/pdf/per21-05.pdf), at p. 20.

<sup>6</sup> The data presented here reflect the results of an ICI survey conducted in May 2016. See survey questions in Appendix A. ICI staff designed the survey, which the GfK Group administered using the KnowledgePanel®, a proprietary, probability-based web panel.

a fund can embed links into its shareholder report, allowing investors to access more detailed descriptions, cost calculators, and other useful information. Changing the default delivery method from mailing full paper reports to mailing paper notices and posting the reports online also would open up new possibilities for innovative visual display and layered disclosure. As Commissioner Kara Stein recently observed, we need “disclosure that can evolve to provide the right information at the right time by utilizing the right technology.”<sup>7</sup>

A paper shareholder report, by contrast, limits shareholders to text and to two dimensions. Paper reports are unable to help investors navigate layered information or access more detailed information. The Internet offers the ultimate a la carte menu: those who want more extensive information can get it; those who do not can access or be provided the essential information they need, in a form they are likely to use. Unfortunately, paper shareholder reports are not only inefficient means of providing information; they are also quite costly.

Second, the Commission’s proposed approach would create direct and very material cost savings for fund shareholders—cost savings which the Commission itself identified as one of the primary benefits of proposed rule 30e-3. Fund shareholders bear these costs; they are expenses of the fund, and therefore fund shareholders—not the adviser. Our analysis finds that, by reducing the number of printed and mailed paper reports, the rule would save shareholders \$140 million over its first three years, and about \$89 million per year after that. Yet shareholders could save even more. If the SEC adopts ICI’s recommended changes to the mailed notice, shareholders would save nearly \$2 billion over the rule’s first 10 years alone. The SEC is in a position to reduce paper and mailing costs effectively mandated by its regulations and to give fund shareholders the ability to save billions by eliminating those costs. It should do so as soon as possible.

Third, proposed rule 30e-3 is in accord with a strong worldwide consensus that we must take practical actions to address climate change. Mitigating environmental damage has become a global and national policy priority, with nearly 200 countries signing the recent Paris agreement to reduce greenhouse gas emissions and combat climate change.<sup>8</sup> Elimination of the mandatory printing and mail delivery of mutual fund shareholder reports is consistent with the Paris Agreement. It also responds to President Obama’s challenge to American companies to reduce their carbon footprints.<sup>9</sup>

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<sup>7</sup> Speech by Commissioner Kara M. Stein at the 48th Annual Rocky Mountain Securities Conference in Denver, CO (May 6, 2016), available at <https://www.sec.gov/news/speech/speech-stein-05062016.html>.

<sup>8</sup> See Office of the Press Secretary, *U.S. Leadership and the Historic Paris Agreement to Combat Climate Change*, Dec. 12, 2015, available at <https://www.whitehouse.gov/the-press-office/2015/12/12/us-leadership-and-historic-paris-agreement-combat-climate-change>.

<sup>9</sup> Office of the Press Secretary, *Fact Sheet: White House Launches American Business Act on Climate Pledge*, July, 27, 2015, available at <https://www.whitehouse.gov/the-press-office/2015/07/27/fact-sheet-white-house-launches-american-business-act-climate-pledge>.

Reducing our reliance on paper shareholder reports would have an immediate, positive impact on the environment. The paper production process not only contributes to climate change, but also pollutes our air, water, and land.<sup>10</sup> Paper manufacturing emits nitrogen dioxide, sulfur dioxide, and carbon dioxide, contributing to acid rain and greenhouse gas effects.<sup>11</sup> Paper mills discharge wastewater that may contain heavy metals, chlorine, alcohols, and other materials that can harm severely the ecology of our waterways.<sup>12</sup> A significant portion of the paper produced through this ecologically harmful process results in paper waste. In fact, paper waste accounts for up to 40% of total waste in the United States.

Reducing reliance on paper also reduces deforestation, which can contribute significantly to climate change.<sup>13</sup> With the adoption of proposed rule 30e-3, we stand to save 1.87 million trees annually—trees currently cut down to make the paper funds use to create hard-copy shareholder reports.<sup>14</sup> Each of these trees supplies an estimated day's worth of oxygen for two people, while absorbing an estimated 48 pounds of carbon dioxide each year, improving air quality and reducing greenhouse gas emissions.<sup>15</sup>

Fourth, the Commission has struck the right balance in preserving the option for fund shareholders to continue receiving paper reports. The proposal recognizes that fund shareholders should no longer bear the cost of a paper default when those who prefer paper reports represent a declining share of the investor population. Instead, the proposal would remove the cost of a paper default, while continuing to provide mailed, paper notices and the option for paper reports. A fund shareholder still would have the option twice a year—each time he or she receives a mailed notice—to

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<sup>10</sup> See U.S. Environmental Protection Agency, *National Emission Standards for Hazardous Air Pollutants for Source Category: Pulp and Paper Production; Effluent Limitations Guidelines, Pretreatment Standards, and New Source Performance Standards: Pulp, Paper, and Paperboard Category*, 63 Fed. Reg. Vol. 18504 (Apr. 15, 1998), available at <https://www.gpo.gov/fdsys/pkg/FR-1998-04-15/pdf/98-9613.pdf> (“EPA Guidelines”).

<sup>11</sup> See *id.* See also U.S. Environmental Protection Agency, *Causes of Acid Rain*, available at <https://www3.epa.gov/region1/eco/acidrain/causes.html>.

<sup>12</sup> See EPA Guidelines, *supra* note 11.

<sup>13</sup> U.S. Environmental Protection Agency, *Causes of Climate Change*, available at <http://www3.epa.gov/climatechange/science/causes.html>.

<sup>14</sup> 1.87 million trees = [240 million shareholder reports per year \* (114 page average report length / 1.75 to account for reports with double-sided pages)] / 8,333 pages in a tree. We base the average shareholder report length of 114 pages on our review of reports of funds representing approximately one-quarter of mutual fund industry assets under management. Our estimate of 8,333 pages per tree comes from Conservatree statistics available at <http://conservatree.org/learn/EnviroIssues/TreeStats.shtml>.

<sup>15</sup> Urban Forestry Network, *Trees Improve Our Air Quality*, available at <http://urbanforestrynetwork.org/benefits/air%20quality.htm>.

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opt back into receiving paper reports. The proposed rule therefore would accommodate the preferences of *all* investors, increasing choice while providing substantial cost savings to fund shareholders.

For all of the reasons discussed above, we believe there is a compelling case for the Commission to move expeditiously to adopt rule 30e-3. I would like to meet with you to discuss further the urgent importance of this initiative and will contact your office to arrange such a meeting. In the meantime, if you or your staff have any questions regarding this letter, or if you would like additional information, please contact me at [REDACTED], David Blass, General Counsel, at [REDACTED], or Dorothy Donohue, Deputy General Counsel—Securities Regulation, at [REDACTED].

Sincerely,

/s/ Paul Schott Stevens

Paul Schott Stevens  
President and CEO  
Investment Company Institute

cc: The Honorable Michael S. Piwowar  
The Honorable Kara M. Stein

## Appendix A

### ICI Questions for KP OMNI Survey

Q1. Many possibilities are available for investing. One option for investing is MUTUAL FUNDS, which pool the money of many people and invest the total amount in a variety of stocks, bonds or money market investments. Types of mutual funds include stock mutual funds, bond mutual funds, money market mutual funds, balanced mutual funds, and target date mutual funds. Mutual funds also can be owned through variable annuities. Does your household own any MUTUAL FUNDS?

Note: Mutual funds may be held in company 401(k) plans, 403(b) plans, traditional or Roth IRAs, employer-sponsored IRAs, education savings accounts such as 529 plans, or in other accounts.

Respondents may indicate: Yes, No, Don't know, or Refused

#### IF YES TO Q1 ASK Q1A:

Q1A. Does your household own mutual funds in...

[MARK ALL THAT APPLY]

1. A company 401(k) plan, a retirement plan provided by a non-profit organization or government, or an employer-sponsored IRA such as a SEP-IRA, SAR-SEP IRA, or SIMPLE IRA
2. A traditional or Roth IRA
3. A 529 plan or Coverdell education savings account
4. Some other account

Respondents may indicate: Don't know or Refused

#### IF YES TO Q1 ASK Q1B:

Q1B. There are a variety of sources that investors may use to obtain information about mutual funds before purchasing them or to monitor their fund investments. Please tell me which of the following information sources your household used before making your most recent mutual fund purchase or to monitor your fund investments.

[RANDOMIZE ANSWERS]

[MARK ALL THAT APPLY]

For each item, respondents may indicate: Yes, No, Don't know, or Refused

1. Your account statements
2. Professional financial advisers
3. Friends, family or business associates
4. Mutual fund summary prospectus received through the mail
5. Mutual fund full prospectus received through the mail
6. Mutual fund summary prospectus accessed online
7. Mutual fund full prospectus accessed online
8. Newspapers, magazines, investment newsletters, or television
9. Mutual fund company annual or semi-annual shareholder reports obtained online
10. Mutual fund company annual or semi-annual shareholder reports obtained through the mail
11. Mutual fund rating and information services such as Morningstar and Lipper
12. Printed materials from a financial services firm
13. Online materials from a financial services firm
14. A phone representative from a financial services firm
15. Financial information websites (such as Google Finance or Yahoo Finance)